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LETTER DATED 10 FEBRUARY 1999 FROM THE SECRETARY-GENERAL
ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to transmit to you herewith a letter dated 8 February 1999 from the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina (see annex).

I should be grateful if you would bring the present letter to the attention of the members of the Security Council.

(Signed) Kofi A. ANNAN

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Annex

Letter dated 8 February 1999 from the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina addressed to the Secretary-General

I have the honour to transmit to you the twelfth report on the activities of the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina (see enclosure). I would appreciate your making the report available to the Security Council.

(Signed) Carlos WESTENDORP
High Representative

Enclosure

REPORT OF THE HIGH REPRESENTATIVE FOR IMPLEMENTATION OF THE PEACE AGREEMENT ON BOSNIA AND HERZEGOVINA TO THE SECRETARY-GENERAL

OCTOBER-DECEMBER 1998

1. Pursuant to Security Council Resolution 1031 of 15 December 1995, which requested the Secretary-General to submit reports from the High Representative in accordance with Annex 10 of the Peace Agreement and the Conclusions of the London Peace Implementation Conference of 8-9 December 1995, I herewith present the twelfth report to the Council.

2. The Report covers the activities of the Office of the High Representative and developments in the areas listed below during the period from the beginning of October1998 to the end of December 1998.

SUMMARY

3. The reporting period was dominated by the implementation of the election results following the general and cantonal elections of 12/13 September, and by the Madrid Peace Implementation Council (PIC) of 15/16 December 1998. Agreement was reached on special relations between the Federation and Croatia. This agreement and the agreement between Croatia and BiH on the use of the port of Ploce (initialed in September) were signed in Zagreb on 22 November 1998.

4. The Madrid PIC meeting reviewed developments since the Bonn PIC in December 1997, and agreed a peace implementation agenda for the coming year. At my initiative, the local parties were, for the first time, closely involved in the drafting of the Conclusions. Many of their proposals were reflected in the final texts, which were unanimously adopted. The Council strongly reaffirmed the Peace Agreement as the basis of freedom and democracy in Bosnia and Herzegovina. While noting the substantial progress of the last twelve months, the Council recognised how much more remained to be done to make peace in BiH self-sustaining. It acknowledged that following the end of the 'consolidation period', the next two years will be vital in strengthening the peace process and building democratic and market-oriented institutions - with the authorities in BiH increasingly assuming greater responsibility for the functions now undertaken or co-ordinated by the international community. It endorsed the continued presence of the international community in BiH as vital to help build the peace. But the Council drew attention to the fact that international assistance to BiH was now at its height and would inevitably begin to reduce in the near future. BiH should therefore use the coming period to prepare for life without total reliance on foreign aid.

5. The Council endorsed a comprehensive blueprint for reinforcing peace in BiH. This included a major effort to promote refugee and displaced person returns in 1999 (including endorsement of the Refugee and Reconstruction Task Force (RRTF) plan for 1999, accompanied by a pledge to provide funding for it). The Council also agreed on detailed proposals to strengthen BiH internally and externally. This will be achieved by measures to:

- entrench the rule of law, (in particular by reforming the judiciary and restructuring the police on multi-ethnic lines);
- strengthen BiH's institutions, especially its common institutions;
- create a market economy in BiH, and press ahead with privatisation;
- promote further democratisation by developing a new electoral law and further media reform.

6. BiH will be strengthened externally by the establishment of a BiH Border service at the state level, with the appropriate legal foundation, to control the frontiers of the country, and, *inter alia*, by steps, to be taken together with the Presidency and the Entities, towards establishing a common security policy and a state dimension to defence. The Madrid Declaration also set out proposals for strengthening BiH's ties with the European institutions, principally the Council of Europe and the EU, building on the efforts

of the BiH/EU Task Force. The Council reaffirmed its support for the broad and substantial powers given to me at the Bonn PIC. The Madrid Declaration is attached as an Annex to this report.
Apart from Madrid, the reporting period saw further efforts towards the formation of a government in the RS, with the nomination by RS President Poplasen of Mr Kalinic (SDS, ex President of the RS National Assembly) to the post of 'mandator'. Kalinic failed, however, to win parliamentary backing and was replaced in early January by a further candidate. At the time of writing, efforts to form a government continue. The SLOGA coalition maintained its unity and its support for Milorad Dodik as its candidate for premier.

7. Implementation of the election results continued in the Federation. At the cantonal level, all governments have been appointed. At the level of the Federation Assembly, the 1998 election results have been implemented and the Government formed.

8. Efforts to promote returns continued, and significant movements in the second half of 1998 brought the total number of minority returns to 40,000. Returns took place to, *inter alia*, Gradiska, Prijedor, Petrovac, Stolac, Capljina and Mostar municipalities as late as December. The first cross-border returns of Croatian Serbs took place in November.

9. There was progress on property issues, with the adoption on 2 December by the RS National Assembly of the *Law on the Cessation of Application of the Law on Use of Abandoned Property*. This removes a major obstacle to returns in Republika Srpska.

COORDINATION OF CIVILIAN IMPLEMENTATION

10. Peace Implementation Council: The Steering Board of the Peace Implementation Council (PIC) has continued to meet on a regular basis at the level of Political Directors. It continues to serve as a key instrument for guidance in the GFAP implementation process.

11. On 6 October, the Steering Board met in Sarajevo, where it discussed the political situation after the September elections, the follow-up to Art.109 and Art.74 of the June 1998 Luxembourg Declaration, police restructuring and returns. The meeting also dealt with the issue of dual citizenship, media issues and common institutions.

12. The meeting held in Brussels on 17 November focused on the RRTF plan for minority returns in 1999 and OHR budgetary issues but also dealt with Federation issues, dual citizenship, the work on the permanent electoral law, judicial reform and the preparations for the Madrid PIC. Additional meetings of the PIC Steering Board at Political Directors' level were held in Madrid on 30 November and 14 December for the preparation of the PIC declaration and annex. I have also continued to convene weekly meetings of the Board at ambassadorial level in Sarajevo.

INSTITUTIONAL MATTERS

13. Common Institutions: The newly-elected common institutions of Bosnia and Herzegovina (Presidency and Parliamentary Assembly) held their inaugural sessions and began to meet quite regularly in the last months. My Office continues to work with the common institutions' members and their staff in order to improve their efficiency. All the institutions now meet at the renovated Marijin Dvor Building and the wasteful rotation of plenary sessions between the National Museum in Sarajevo and the Electro-Technical Faculty in Lukavica has finally ceased.

14. The reconstituted Presidency (chaired by the new Serb Member, Zivko Radisic, and comprising a new Croat Member, Ante Jelavic, and the re-elected Bosniac representative Alija Izetbegovic) held four working sessions, all marked by a more cooperative and positive approach. Discussions focused on the development of a common platform for the Madrid PIC and on the establishment of common services for the Presidency, with some encouraging results. A jarring note was the long delay in the appointment of the Co-Chairs of the Council of Ministers, with the Presidency failing to announce its candidates until the

end of December. They will not take office until they have been approved by the House of Representatives, as required by the Constitution.

15. The newly elected House of Representatives of Bosnia and Herzegovina held its constitutive session on 26 November and its first working session on 10 December. It adopted amendments to the Law on Travel Documents, extending the validity of the old RBiH passport until 30 June 1999. With the new, post-election distribution of seats in the House of Representatives, no single party has a working majority : the early sessions indicated that the introduction of four new parties and the weakened position of the "historic" ruling national parties should mean a diversification of opinion and help to weaken the national parties.

16. The House of Peoples of Bosnia and Herzegovina, the members of which are appointed by the Entity Parliaments, held its inaugural session on 4 December.

17. The lengthy delay in forming a new Council of Ministers has impeded the work of this institution. The Council has been unable to adopt new initiatives or legislation in its caretaker capacity, and members unlikely to return have demonstrated an increasing lack of interest in the proceedings.

18. SCMM: Since my last report, the Standing Committee for Military Matters (SCMM) has held its tenth and eleventh sessions. Some progress has been made on a number of issues, such as the protocol on cross-IEBL flights which was signed on 27 October. However, in general the SCMM has achieved very little of substance over the course of the past year. It is becoming increasingly clear that it, and its Secretariat, must adopt an altogether more positive approach to its role, and take on a much more substantive programme of work. This is particularly so now that the Madrid PIC has endorsed the need for the parties in Bosnia and Herzegovina to take steps towards establishing a Common Security Policy and a State dimension to defence.

19. The Constitutional Court of Bosnia and Herzegovina: The Constitutional Court of Bosnia and Herzegovina continues its consideration of a case concerning the conformity of the Entities' Constitutions with the Constitution of BiH. Two sessions, on 14-15 October and 21-22 December 1998, aimed at a comprehensive public hearing for all parties concerned. In both cases, this turned out to be impossible, first because of the failure of the Republika Srpska and the Croat side of the Federation to designate their representatives, and later for procedural reasons related to the substitution of one of the Bosniac judges, who resigned in October. A new session and public hearing of the same case is scheduled for 23 January 1999 in Banja Luka. Meanwhile, payments to the Constitutional Court from the State budget, which only began in August 1998, have been inadequate to secure the smooth running and financial independence of the institution. As a result, the Madrid Declaration called for larger allocations from the State budget, to be supplemented by international donors' contributions through a voluntary fund.

20. Citizenship Law: The draft *Law on Citizenship of the Federation of Bosnia and Herzegovina* was finalised with experts from the Federation of Bosnia and Herzegovina, the Council of Europe and the UNHCR. I expect the law to be adopted within the coming months.

21. A meeting with experts from Republika Srpska, my Office, UNHCR and the Council of Europe took place in November 1998 in order to draft a Citizenship Law for Republika Srpska. Another meeting will be needed before the draft will be ready for adoption by the National Assembly of Republika Srpska.

22. The Agreement on the Port of Ploce: In September, Bosnia and Herzegovina and the Republic of Croatia initialed an "*Agreement on the free transit through the territory of Croatia to and from the Port of Ploce and through the Territory of Bosnia and Herzegovina at Neum*". This Agreement was signed by Presidents Tudjman and Izetbegovic on 22 November in Zagreb. It establishes a free trade zone within the Port of Ploce and arrangements for BiH to import and export goods from the port free of duty. It provides for a Port Authority consisting of members from the Republic of Croatia as well as from Bosnia and Herzegovina, primarily made up of representatives of shippers and users.

23. Special Relations Agreement between Croatia and the Federation: The Federation of Bosnia and Herzegovina and the Republic of Croatia signed an *Agreement on Special Relations* in Zagreb on 22 November, based on Article III.2.d (a) of the Constitution of Bosnia and Herzegovina. It provides for Annexes to be drafted to regulate the details of co-operation. The Annexes must be concluded by 1 July 1999. Existing arrangements may only remain in force until 1 September 1999.

24. Amnesty Law: On 24 December 1998 the Republika Srpska National Assembly passed a Law on Amnesty which amends the previous Law on Amnesty's exclusion of deserters and draft dodgers from legal protection. It also extends the amnesty period to the point at which the conflict ended *de facto*, and makes the amnesty explicitly retroactive. This is an improvement on the previous legal regime and a major step by Republika Srpska towards fulfilling its obligations under Annex 7, Article 6. My Office is still working with the Republika Srpska Ministry of Justice to draft an amendment which would clear up some minor outstanding issues.

25. Succession issues for the Former Yugoslavia: Following a tour of capitals between September and November 1998 (in lieu of the further negotiating session which had been envisaged), the special Negotiator for Succession Issues, Sir Arthur Watts, will hold bilateral meetings, in Brussels, with representatives of the Five States, starting in the second half of January 1999. In view of last month's Madrid Declaration of the PIC, efforts will be made to make rapid progress on outstanding issues.

26. Border issues: Following incursions into BiH by Croatian Border Police in the Martin Brod area, and the establishment of a check-point in BiH territory, SFOR forcibly removed Croatian police present in the disputed area on 23 December 1998. The situation is now calm and the Inter-State Border Commission is now working to reach mutual agreement on this and formal delineation of the mutual border. A number of other border disputes have subsequently emerged.

27. Brcko: Although minority returns to the Brcko area of supervision continued, the pace slowed notably. While the onset of both winter and the school season diminished the pace of housing reconstruction and return, a more significant factor was the virtual exhaustion (except in a few volatile neighborhoods) of the stock of destroyed and unoccupied houses for which CRPC claims had been approved. On 3 November, the Supervisor issued two Orders calling for the Brcko municipal government to enable the return of non-Serb members of the assembly, police, judiciary, and municipal administration and to restore full ownership rights to those property owners to whom Article 17 of the now superseded RS Law on Use of Abandoned Property had been applied. These Orders stressed that no Serb DP would be evicted without having sufficient alternative accommodation and further indicated that the municipal government should find space to relocate DPs by resolving cases of illegal occupation of multiple housing units by single families. The municipal government failed to make significant progress on these Orders by the end of 1998. The Federation also failed to make significant progress on the return of Bosnian Serb DPs in Brcko to their pre-war homes in the Federation.

28. With the encouragement of the Supervisor's office, Brcko's multiethnic administration underwent restructuring which involved the creation of a Secretariat for Public Works (headed by a Bosnian Serb) and a Secretariat for Budget and Finance (headed by a Bosniac). Bosnian Serb party leaders were unable to reach consensus on the candidate for Secretary of Public Works, however, due to concern over shifting the balance between Bosnian Serb political parties in the Executive Board. The intercession of the Supervisor was required, and the two Secretaries were appointed by Supervisory Order on November 16. For much of the October-December period, the Executive Board was characterised by a high state of friction between the Bosnian Serb Mayor and his two Bosniac and Bosnian Croat Deputies.

29. Brcko's multiethnic police has continued to cooperate with the UNIPTF and to function with a reasonable degree of effectiveness. The multiethnic judiciary has continued to function but has been hampered by a severe lack of funds which threatens its existence. Freedom of movement continues to improve.

30. Brcko's economy remains basically stagnant and lacks substantial employment opportunities. Brcko remains in critical need of outside investment to support the multiethnic administration, encourage returnees, and deter the potential for social unrest. The Supervisor has created a privatisation task force to work with the RS and Federation governments in order to determine the most effective and successful way to privatise state-owned and/or socially controlled enterprises in the Brcko area.

31. Federation issues: Federation issues continue to be the focus of attention of my office. The process of the implementation of the election results in the Federation House of Peoples was completed . The SDA-led coalition and the HDZ monopoly on the Bosniac and Croat delegates have been broken. The House therefore has, for the first time, a multi-ethnic party with the SDP having Bosniac, Croat and other delegates. NHI have secured 3 Croat delegates. These breakthroughs are to be safeguarded by provisions in the future election law.

32. Establishment of the new Government in the Federation finally took place in December. On-going problems at the *municipal* level continue to be an important problem on the Federation side. General improvement in the functioning of multi-ethnic authorities following the 1997 municipal elections is welcome. But inadequate progress in many areas and barely functioning joint authorities in a few municipalities are still matters of concern. The adoption of the RRTF's 1999 return plan has added to the importance of this issue, given the vital role of municipal co-operation in fostering returns. My Office has received full support from the international community to apply sanctions in cases of non-compliance, and to withhold international economic assistance from municipalities which have had their final certification withdrawn by the OSCE. The report on the secondment of special envoys, prepared by my Office, in accordance with the Article 74 of the Luxembourg Declaration, has been adopted. The deployment of special envoys, as endorsed by the Madrid PIC will, I hope, increase the level of implementation in this regard.

33. Despite considerable achievements in the field of minority return, significant breakthroughs are still needed. Recent incidents against minority returns to Herzegovina are of concern. Attacks on Bosniac returnees in Stolac municipality have brought the number of attacks to eight since October and to 71 in 1998. These incidents underline the urgent need for firm action by Croat leaders to make clear that violent behaviour and intimidation will not be tolerated.

34. I greatly welcome SFOR's willingness to engage closely in assisting returns. My Office has been working closely with SFOR on the development and implementation of the RRTF plan for 1999. Priorities for the coming year will include dismantling criminal structures in order to bolster the rule of law in the Federation. Recent successes by local institutions and CAFAO are encouraging in this respect.

35. Dismantling of parallel institutions of the former Croat Republic of Herzeg-Bosna and the Republic of Bosnia Herzegovina, especially separate payments and pension systems, and cutting of Croatia's financial support to parallel institutions of Herzeg-Bosna, are the main short-term targets my office continues to follow. The initialling of an Agreement on Special Relations between the Republic of Croatia and the Federation of BiH, will not only contribute to the stability of the region as a whole, but will help us to achieve specific, practical progress too. I continue to look to the international community to work to ensure that Croatia lives up to its commitments in this regard, as well as to its other commitments under the GFAP.

36. Republika Srpska issues: I am concerned that over four months after the elections, the new President - Nicola Poplasen - has failed to nominate a candidate for Prime Minister capable of commanding a majority in the National Assembly. Two candidates - Dragan Kalinic, and Brane Miljus - have been nominated but have failed to gain sufficient support. The National Assembly deputies have clearly expressed their support for a third candidate - the current Prime Minister, Milorad Dodik. But President Poplasen refuses to nominate him. This violates normal democratic procedures and damages the process of implementation.

37. I have stressed to the RS authorities and to International Organisations that in the interim period the Dodik government continues to act with full powers. I have encouraged embassies and organisations to engage with the government. I will not permit President Poplasen to block the process of implementation for political reasons. Nor will I permit him to provoke an artificial crisis in the work of the government. I continue to urge him to respect the normal democratic process and select a candidate capable of commanding a majority in the National Assembly.

38. Implementation of the results at other levels has taken place more smoothly. The National Assembly held its constitutive session between 29 October and 4 November. Despite some obstruction from the SDS and SRS, the Assembly authorities were elected (from the SLOGA coalition). At the same session, the President of the RS took the oath and the RS delegates to the House of Peoples were elected. The Assembly has since passed some important legislation, including the Law on Use of Abandoned Property and the Law on Amnesty.

39. The appearance of Mr Seselj, the extremist Deputy Prime Minister of Serbia, at Mr Poplasen's inaugural reception in Banja Luka in October, in defiance of my instruction not to meddle in BiH politics, was wholly unacceptable. I had no alternative but to declare Seselj *persona non grata* and require his immediate departure from BiH. His departure was monitored by SFOR units.

40. Poplasen's obstructionism might have been motivated by growing expectations and unrest with the Arbitration on Brcko approaching. The Kosovo crisis had, during the reporting period, a limited effect on the political climate in the RS.

Municipalities: Implementation of Election Results

41. At the Cantonal level, with the exception of the Central Bosnian and the Gorazde Canton, all governments have been appointed. The Gorazde Canton Assembly , however, still has to select a delegate for the Federation House of Peoples.

42. At the level of the Federation Parliamentary Assembly, the 1998 election results have been implemented and the Government has been formed. While all the five Serb delegates to the BiH House of Peoples have been selected, a government is still not formed.

43. At the level of the BiH Parliamentary Assembly there is still a debate over the selection of the fifth Croat delegate to the BiH House of Peoples. According to the principle of proportional representation followed in the selection of delegates, this seat should go to a member of the NHI but the HDZ is blocking such an appointment. The rest of the results have been implemented.

Municipalities – Srebrenica

44. Out of the 136 municipalities in which elections took place in 1997, by July 1998 all were certified with the exception of Srebrenica. A plan has been drawn up by the OSCE with a deadline of 31 January for the implementation of the election results in Srebrenica, and includes possible courses of action if the deadline is not met.

45. Two further municipalities were certified in November, bringing the total to five since July. Intensive efforts are underway to ensure that the authorities focus their attention on resolving local governance problems and that these municipalities meet the criteria for re-certification.

DEMOCRACY

46. Election Preparations for 1999: Plans are being made by the OSCE for supervision of the next municipal elections and to assist state authorities in a smooth transfer from a provisional voters register to a permanent voters register under the authority of a permanent election commission. I intend to co-ordinate efforts to ensure a smooth transition from provisional structures to permanent institutions.

47. Electoral Law Reform: Since my last report, the group of independent national experts, which I established on 1 August 1998, has prepared a preliminary draft of the election law. In November, I met with the international advisory team to develop ideas for the election law that would promote a multi-ethnic state, establish an independent election commission and reinforce accountability of the elected representatives to the electorate. The preliminary draft of the electoral law has been distributed to the international advisors for review and comments. The international electoral advisors will meet early in the New Year with the independent national experts and help them develop these ideas and improve the draft of the election law. This will be an on-going process which I will follow extremely closely to ensure that the provisions in the law are in accordance with democratic norms and practices.

48. Media Reform: The progress achieved in media reform was highlighted by the Madrid PIC as one of the most encouraging developments of 1998. The consolidation of this success, combined with the necessary media regulation and complaints procedure through the Independent Media Commission (IMC), will underpin our strategy for 1999.

49. Restructuring of RTV BiH: The restructuring of Radio Television Bosnia and Hercegovina (RTV BiH) was a top priority for media reform in the reporting period. Negotiations were aimed at creating a Federation TV which would enfranchise the Croat people. The process of forming Federation and National TV is being discussed concurrently; the first priority from the point of view of the international community is the formation of a Federation TV, as without it there is no legal basis for a BiH-wide Public Corporation.

50. A Draft Law for the establishment of Federation TV was developed by the RTV Board of Governors together with my Office and the IMC. This will be presented for adoption by the Federation Parliament as soon as possible. Passage of this legislation is an urgent priority as the system to establish funding through subscriptions is contained in the law. A business plan and system to enable transparency in financial administration is also being developed by the Board of Governors. So too is a comprehensive proposal for establishment of the Public Broadcasting Corporation. My Office, the IMC, RTV BiH and representatives of the Croat community, including TV professionals, are currently negotiating a technical system to cope with an expanded Federation TV. A new experimental Federation Channel will be launched broadcasting on transmitters now transmitting HRT programming as necessary to expand the coverage area throughout Herzegovina.

51. The problem of Croatian Television (HRT) transmitting illegal broadcasts terrestrially into BiH was addressed by the IMC on 16 December. It instructed that direct re-broadcasting of HRT programmes be terminated at the earliest practicable time - as soon as RTV BiH is able to organise a Federation television system that met the needs and rights of the Croat community in BiH. The IMC also decided not to licence Erotel re-broadcasting of HRT programmes beyond a brief transition time needed to establish Federation television. Re-transmission of programming from foreign states by terrestrial means on the territory of BiH is a key concern as it obstructs the development of a normal media market in BiH, which in turn impedes development of a market economy. One of the IMC's priorities will be to ensure that all re-transmission, including RTS broadcasts from Belgrade, conform to their regulations.

52. Following agreement between Federation and RS authorities, an Annex 9 Public Corporation will be formed to create a country-wide public television. This corporation will inherit EBU membership. The current RTV BiH, new Federation TV and the Public Corporation will operate in accordance with the new regulatory and licensing procedures administered by the IMC until the new laws on media and broadcasting have been adopted by the BiH Parliament. All of this is being done in close consultation with the Entity authorities, local broadcasting professionals and all of the various communities.

53. The Independent Media Commission: The IMC has, in the reporting period, taken great strides towards fully establishing itself operationally as the Licensing and Regulatory Agency for Bosnia and Herzegovina. Much has been done to fulfil its obligations to the media community in setting, regulating and monitoring best international standards of broadcasting practice, specifically through introducing and

reinforcing its Broadcasting Code, which came into effect on 1 August 1998. In the main, the IMC reports satisfaction with the record of the majority of the broadcast media in complying with the Code and observing the 11 June moratorium on new broadcasting.

54. The IMC's extensive survey of radio and TV broadcasting identified more than 280 stations now operating in BiH. The urgent need for a uniform licensing process is illustrated by the fact that over 15% of stations reported some sort of interference from other broadcasters. The full licensing package was delivered to broadcasters in December and the first official licences are to be issued within 60 days.

55. Self-regulation of the print media to reinforce professionalism and to support independent journalism - with the aim of ensuring sustainability beyond the period of transition - will be embodied in a Press Code. A draft code developed by the IMC in conjunction with journalists' associations was presented to over 150 journalists from the whole of BiH at a media conference in Neum. The working document will be the subject of discussion at a forthcoming meeting of the five BiH journalist associations. The IMC will strongly encourage the creation of a Press Council and will urge the associations to recommend the formation of such a body to their members. The target date for the adoption and establishment of a Press Code is the end of February 1999.

56.The Open Broadcast Network: The Open Broadcast Network (OBN) continues to fulfil its objectives as the only cross-Entity TV broadcaster and is a vital conduit for free and independent information. OBN will play an important part in our strategy on refugee returns, economic reform and in the run up to the municipal elections. Increased strong programming, and improved news broadcasts retain substantial viewing figures throughout BiH. Commercial funding will depend on securing its running costs for this year - so adequate funding for 1999 is vital.

57. Training: We will be making a major effort in 1999 to support journalist training which will aim to improve both overall standards of journalism and media related skills as well as management and commercial administration.

RETURNS

58. While minority returns have fallen short of expectations for 1998, significant movements in the second half of 1998 brought the total number of minority returns to 40,000 out of a total of 140,000 people who returned. 100,000 of these were refugees from abroad, mainly from Germany.

59. The return season continued into December in many areas, including Gradiska, Prijedor, Petrovac, Stolac, Capljina and the Mostar municipalities. Many returns took place despite obstacles, including damage inflicted upon reconstructed houses and continued violent obstruction notably in the Stolac and Capljina municipalities, resulting in the death of a Bosniac returnee in October in Tasovcici. UN IPTF investigations into the situation in Stolac were hampered by further violence.

60. The end of the year saw some progress in the implementation of the Mostar Return Agreement with long-awaited and high-profile movements of Bosniacs to Rastani and the handover of houses of Bosnian Croats in the Poljc settlement in early December. Tensions in Central Bosnia over minority returns to Bosniac and Bosnian Croat villages had diminished by the beginning of October.

61. Administrative integration remains a serious problem. It has caused some to return to their area of displacement over the winter months. This issue will need to be tackled decisively in 1999 if returns are to be sustainable. The rule of law and implementation of new and existing legislation in the sphere of property remains poor in both entities. The reinstatement of minority residents in Banja Luka - representing just a fraction of the problem in the country as a whole - remains painfully slow, despite government assurances to the contrary. However the RS National Assembly, in a crucial step forward, passed amended legislation in December that will allow former residents to reclaim socially-owned 'abandoned' property.

62. The first cross-border returns of Croatian Serbs to Croatia took place in November and the outlook for much greater numbers of returns both of Croatian Serbs and of Bosnian Croats to Bosnia and Herzegovina is hopeful for 1999. However difficulties related to obtaining documents and in traveling to Croatia remain substantial. International assessment of progress by the Government of Croatia in implementing their programme of return is positive but cautious, and the Donors' Conference on 4-5 December made clear that further assistance and cooperation would depend upon compliance.

63. The Steering Board and Contact Group declared the return of refugees and displaced persons to their homes of origin a key priority for 1999. An RRTF Action Plan for 1999 was endorsed by the Madrid PIC. While the principles of the RRTF plan of March 1998 remain valid, a more targeted operational tool is required to make possible the decisive breakthrough in 1999 that is the only hope of facilitating a self-sustaining flow of returns beyond that point. The Plan will require the full commitment of both donors and implementing agencies to ensure that political and material resources are directed, and if necessary re-directed to support and sustain minority return movements. My focus will increasingly be on the application of effective conditionality. In this context the RRTF and the Economic Task Force (ETF) will work even more closely together.

HUMAN RIGHTS AND RULE OF LAW

64. Return-related incidents, including destruction of property and violence, continued during the reporting period, particularly in Stolac, Capljina, and Teslic. In early October, demonstrations aimed at preventing minority returns in Capljina resulted in the death of a Bosniac returnee when a grenade was thrown at his house. Minority returns to Teslic in September and October were also followed by a series of attacks targeting returnees, including grenade and arson attacks. The response of local authorities and police to return-related violence has been inadequate, particularly in Canton 7. In this Canton, UNMIBH established an Operational Performance Scrutiny of the Stolac Police Administration to examine the performance of the Stolac police in preventing and responding to returnee-related violence. The Human Rights Task Force met in November in order to establish the main objectives and priorities in the field of human rights for the upcoming year and these priorities were reflected in the conclusions of the Madrid PIC.

65. **Judicial and Legal Reform:** Intensified judicial reform efforts, under my coordination, were identified as one of the main priorities by the Peace Implementation Council in Madrid. I remain particularly concerned at the lack of independence and impartiality of the judiciary in both Entities. As emphasised in Madrid, legislation to provide for review of judicial appointments by an independent commission, and the establishment of basic standards for an independent judiciary, are essential to ensuring that the judicial appointment process is transparent and free from political influence. A draft law addressing the selection and dismissal of judges in the Federation has been developed and submitted to the Council of Europe and the Federation Judges' Association for comment. The draft law is expected to be submitted to the Federation Parliament in the first quarter of 1999. Early in 1999 my Office will request the Republika Srpska government to establish a working group composed of international and national experts to develop similar legislation, with the aim of submitting it to the National Assembly by July 1999.

66. My Office is proceeding in its work with UNMIBH, the Council of Europe and OSCE in reform of the criminal justice system. Developments in this area have been encouraging. The revised Federation Criminal Code and Criminal Procedure Code became effective on 28 November 1998. The Expert Team to reform the Criminal Law of the Republika Srpska held a comprehensive session in late October, and the Team's draft codes have been submitted to the Government for review and comment. The final drafts will be submitted to the Council of Europe in February for assessment as to compliance with the ECHR and other international standards. The plenary session to finalise the draft codes is scheduled for April, after which they will be presented to the Republika Srpska government for adoption.

67. Investigation and prosecution of serious crime, especially return-related violence and other organised crime, has also been identified as a priority for the upcoming year. Inadequate criminal investigation and prosecution at the local level in both Entities must be addressed through the enhancement of the Entity level prosecutor's offices to ensure a politically-independent prosecutor, with sufficient authority and resources. An initiative to enhance the Entity-level prosecutor's offices has been developed by my Office and the OSCE. Implementation of this initiative is due to begin early in 1999.

68. I am deeply concerned regarding the verdict handed down by the Bijeljina court in December in the re-trial of a case involving seven Bosniac men who fled after the fall of Srebrenica and remained in hiding in RS territory for almost a year. Charges against three of the defendants, who were accused only of weapons violations, had already been dropped; the remaining defendants were convicted of the murders of four Serb woodcutters, as well as a Bosniac companion, during the time they were in hiding. Three of the defendants, including one tried *in absentia*, were found guilty of murder; the fourth was found guilty of attempted murder. The only evidence linking the defendants to the alleged crimes were confessions taken during the original investigation; the court apparently relied on these confessions despite overwhelming evidence that the defendants had been mistreated and the confessions were coerced. The verdict follows a history of apparently political decisions and procedural violations by the trial courts in this case. Due to procedural delays, the three defendants still in custody have already been imprisoned for over two and a half years. Soon after the period covered by this report, agreement was reached to transfer them to prison in Tuzla. But close monitoring of the case will continue to be needed.

69. Human Rights Institutions: I remain extremely concerned by the continued failure of the authorities in BiH to ensure that the decisions and recommendations of Human Rights Chamber and the Human Rights Ombudsperson are implemented. This particularly applies to property-related cases involving apartments purchased by former members of the Yugoslav National Army (JNA), and local authorities' non-implementation of judicial decisions concerning rights to property. In addition, no action has yet been taken by the West Mostar authorities regarding the prosecution of persons responsible for the shooting death and injuries in Mostar on 10 February 1997, contrary to recommendations by the Office of the Ombudsperson. In November, the Human Rights Chamber held a public hearing in Banja Luka regarding the destruction of mosques in Banja Luka. The hearing was held despite continued problems faced by the Chamber in securing a location for the hearing as well as the failure of the government of the Republika Srpska to send an Agent before the Chamber to represent the government at the hearing.

70. The caseloads of the Annex 6 & 7 institutions continue to expand. At the end of November 1998, the Human Rights Chamber had registered 1329 cases, had issued final and binding decisions with respect to 42 cases, and had granted orders for provisional measures in 64 cases, following 13 public hearings. The Commission on Real Property Claims for Displaced Persons and Refugees had received claims concerning 148,167 properties, and had made decisions with respect to 25,421 properties. At the end of December 1998, the Office of the Ombudsperson had registered 2742 cases and had issued final reports with respect to 293, while it had transferred 110 cases to the Human Rights Chamber and issued 13 *ex-officio* "Special Reports".

71. Property: While the process for registering claims for repossessing property in the Federation has improved since I extended the deadline to file claims in September, the rate of decision-making and enforcement of decisions continues to be very poor. In November, I was obliged to suspend until further notice the reallocation of apartments, and the sale of apartments to individuals who acquired occupancy rights after 30 April 1991. I have asked the Federation Government and Parliament to undertake a comprehensive review of laws and administrative practices relating to property and housing, to eliminate outstanding obstacles to return. My Office is commissioning a second review of the implementation of the property laws, the results of which will be communicated to the RRTF and the donor community.

72. On 2 December, the Republika Srpska National Assembly adopted the *Law on Cessation of Application of the Law on Abandoned Property*. This Law rescinds the war-time legislation on abandoned property, which has been a major obstacle to return in Republika Srpska. The Law's adoption represents a positive step forward, establishing an administrative claims process for the repossession of

property, similar to the Federation property laws. My Office will work closely with the Republika Srpska authorities on necessary additional amendments to the property and housing laws, and will closely monitor implementation.

73. Civil society: My Office continues to support initiatives to promote the establishment of a legal framework for non-governmental organizations and foundations which would contribute to the development of a sustainable civil society in Bosnia and Herzegovina. The process of drafting a new Law on Associations and Foundations by local non-governmental organizations and international experts has been finalised and domestic non-governmental organisations will take the lead in the negotiation process with the authorities in the adoption of this legislation.

74. Education: The implementation of the Textbook Review Project agreed between the Ministers of Education of both Entities in May 1998 on the removal of offensive materials from textbooks in use in primary and secondary schools throughout the country continues to progress very slowly. The Ministers have agreed to instruct their experts to draw up guidelines regarding the resolution of disputes over basic terminology, and on the removal of generally offensive material. They are also considering how to resolve issues of disagreement with regard to History, Geography, Art, Music and Language and Literature. The commitment of the Sarajevo educational authorities, however, to withdraw textbooks judged to contribute to ethnic hatred and intolerance from all schools by the beginning of the new school year, has not been met. Progress on the Sarajevo textbook review process has recently halted due to a decision by the Sarajevo Cantonal government that the Education Working Group has no legal standing and that its decisions should therefore be rejected. While progress has continued to be made with regard to discrimination and democracy projects, this position seriously jeopardises the continuing work of the Education Working Group. My Office continues to support the work of UNESCO, the Council of Europe, the World Bank and others in their efforts to reform the education system, ensure the availability of adequate resources to enable reform, and to develop curricula appropriate for use in all communities.

75. Economic and social rights I am concerned by the widespread existence of various forms of discrimination in the field of economic and social rights, including in labour and social protection. In the absence of efficient administrative and legal redress mechanisms, this vital category of rights is particularly endangered. My Office has engaged in discussion with the relevant international organisations regarding possible strategies aimed at preventing, sanctioning and eliminating this widespread form of discrimination.

76. Missing persons and Exhumations: My Office has taken the lead in promoting better co-operation between the parties in the area of exhumations and missing persons. Tremendous progress was made in 1998 in this vital field. For example, unrestricted access to grave sites for exhumations and the collection of surface remains has been provided by each of the three ethnic groups, without demands for reciprocity. As a result, the three groups have worked at 358 locations and have together exhumed nearly 1, 800 bodies in 1998. Over 70% of these have been identified. While the fate of the majority of the missing remains unresolved and much work remains to be done, the move from access to grave sites based on reciprocity to full cooperation between the three Commissioners for Tracing Missing Persons, is a very significant breakthrough in the process. Building upon this success in the exhumations process, the priority for my Office in the coming year will be to persuade the authorities in BiH to tackle the issue of the missing - especially of detainees unaccounted for.

77. Cooperation with the ICTY: There was a notable incident of violence directed against members of the international community following SFOR action to detain individuals indicted by the Tribunal. In December, SFOR's detention of General Radoslav Krstic under sealed indictment by the ICTY was followed by a violent attack on two ECMM monitors by a crowd in Vlasenica. Statements made at a rally by the Mayor of Vlasenica provoked the crowd and appear to have led directly to the attack. I have since removed the Mayor of Vlasenica.

78. Freedom of Movement: Following the successful implementation of the Uniform Licence Plate and the Common Vehicle Registration Document, I have decided to introduce a Common Driving Licence as

a further measure to promote freedom of movement. In BiH, the driving licence is the principal means of driver identification. The new Common Driving Licence will conform to EU standards.

79. Police restructuring: In December, I endorsed the Framework Agreement on Police Restructuring, Reform, and Democratisation in Republika Srpska negotiated between the RS Government and UNMIBH. The agreement calls for the phased introduction over two years of minority, i.e. 'non-Serb' officers into the RS Interior Ministry police force. According to benchmarks stipulated in the agreement, by December 2000, 24% of the force, or over 2000 officers, will be non-Serb. The agreement also ties the RS Interior Ministry to UNIPTF selection and training protocols.

80. In the Federation, UNMIBH has established working groups for the recruitment of minority police in every Canton. The working groups, comprised of UN and Cantonal Interior Ministry representatives, are responsible for identifying minority candidates for inclusion into Cantonal police forces. The Herzegovina-Neretva and Una-Sana Cantons have made the most significant progress during the reporting period.

81. During the reporting period, my Office continued to refine the concept for the establishment of the State Border Service, decided upon by the Bonn PIC in December 1997. The force will be civilian, professional, and multi-ethnic in composition. At its Madrid meeting, the PIC supported the idea of forming an initial contingent of 300-400 Border Service officers to be deployed at selected major crossings by October 1999. The priority activities for the coming three months will be the finalisation of the draft Law on the State Border Service and the development of management capability in the state-level Ministry of Civil Affairs and Communications.

ECONOMIC REFORM AND RECONSTRUCTION

82. Reconstruction: Infrastructure issues related to promoting freedom of movement continue to require the attention of my Office. Progress, though slow, has been made in a number of areas including bus services, river transport and reconstruction of international bridges.

83. The instructions on the regulation of inter-Entity and international bus traffic were signed by the Ministry of Civil Affairs and Communications. Entity ministries have approved 45 inter-entity lines. The BiH Council of Ministers adopted an agreement on the regulations for navigation on the Sava River Bridge reconstruction at Gradiska and Brod, funded by the EC and USAID, is due to begin in early 1999. The World Bank-funded bridge at Orasje was opened in December and provided a much-needed link between BiH and Croatia. Reconstruction of the EC-funded Karuse bridge on the IEBL near Doboj has also started.

84. Reform of Public Utilities and Implementation of Annex 9: In the field of energy, the working group created by the Commission on Public Corporations agreed to establish a Joint Power Coordination Center for the transmission of electric power. The three existing Elektoprivedas signed an agreement to that effect on 3 November 1998 and reached agreement on the successive implementation phases.

85. Some progress was also made in the re-organisation of the railway sector and a draft law is now being reviewed at the Federation level for the establishment of Federation Railways. The Railway Corporation pursued its organisational work but the solution of a number of legal problems was delayed by the replacement of the Ministers of Justice in both the Federation and in the Republika Srpska.

86. Deterioration of inter-entity *telephone* links continued to impede communications. On 9 December, thanks to the direct intervention by my Office, 420 inter-entity telephone links were re-established. The Telecommunications Working Group considered draft proposals for the structure and regulations of the Telecommunications Regulatory Agency, agreed on the substance of an international licence, arrived at a shared position on tariff policy, and discussed the next steps towards a BiH numbering system.

87. My Office has been actively involved in the *postal* sector, which urgently requires re-organisation and modernisation. The Government of the Netherlands has agreed to provide an expert who will produce an initial proposal for a State-level BiH postal law. The Italian Government donated six vehicles for the delivery of inter-entity mail.

88. Macro Economic Reform and Transition: The Economic Task Force (ETF) continues to play a vital role, under my chairmanship, in co-ordinating economic reform policies and international reconstruction assistance. As confirmed in Madrid, my Office will continue to ensure that the ETF Secretariat, operating in co-operation with the IMG, informs and guides the donor community through monthly publication of an economic newsletter and donor meetings as well as review and evaluation of progress. The ETF is also responsible for exercising conditionality.

89. Following the introduction of the Konvertible Marka notes last summer and my decision on the design of the coin, 10, 20 and 50 Feninga coins, minted by the United Kingdom's Royal Mint, the coins were put into circulation in November. While the new currency has gained considerable public confidence, my Office continues to monitor and promote the steps necessary to increase its use in those parts of the country where it has been slower to gain acceptance. My Office is deeply concerned at the reluctance of key international organisations to use the currency as the sole medium of payment.

90. Entities have honoured their commitments to provide budgetary payments to support the 1998 State budget. My Office continues to assure the viability of Common Institutions. Both Entities have been preparing their 1999 budgets. The budget has been adopted as a draft proposal in the Republika Srpska while the passage in the Federation is imminent. Reasonable remuneration for the judiciary is a prerequisite to a well-governed civil society; salaries of judges in the RS remain particularly low. My Office has been working with the RS government to allocate adequate salaries for judges.

91. Substantial progress has been made on the closure of the National Bank of Bosnia and Herzegovina (NBBH), a key issue for completion of the first review under the IMF stand-by arrangement. My Office is following a plan prepared by the Federation government, in consultation with the payment bureau (ZPP) and the Central Bank of Bosnia and Herzegovina, whereby the covered government deposits at the NBBH will be moved to commercial banks. Uncovered deposits will be frozen in a NBBH account. The NBBH has stopped all banking operations.

92. My Office was extensively involved in a major investment agreement signed between the European Investment Bank (EIB) and the BiH Ministry of Foreign Trade and Economic Relations. The State has undertaken to settle a pre-war credit (6 million ECU) extended to the former Elektroprivreda, a public company. The EIB plans to invest nearly 100 million ECU in the infrastructure sector over a two year period starting in 1999.

93. On 28 October, the members of the Paris Club provided significant debt relief to BiH by agreeing to write off external debt which the country owed to foreign governments. The agreement accepted a write-off of 67 per cent of the value of unpaid principle and interest due through to 30 April 1999. Late interest payments for the period 1 July 1998 to 30 May 1999 will not, however, be written off. The Paris Club agreed in principle to hold another meeting to discuss repayment of this remaining debt provided that BiH continues to have an appropriate agreement with the International Monetary Fund, and that BiH and the creditor countries conclude bilateral agreements by April 30, 1999. My Office played a key role in these negotiations.

94. Civil Aviation: On 1 October 1998, the Council of Ministers accepted and signed a letter by means of which COMSFOR delegated the authority and responsibility for management of the upper airspace between FL 330 and FL 450 over Bosnia and Herzegovina to the Department of Civil Aviation (DCA). The Letter of Delegation provided the DCA with the legal authority to enter into agreements with airspace service providers Zagreb (ATSA) and Belgrade (FATCA).

95. On 17 November 1998, the draft Aviation Law was submitted for a second time to the Council of Ministers urging them to forward it to the Parliamentary Assembly as no action had been taken on the adoption of this law by then. This unfortunately is still the case. The Madrid Declaration of the PIC calls on the common institutions to adopt this important law by 28 February 1999.

96. Without the agreements with FATCA and ATSA, the DCA, which desperately needs funding, is still unable to instruct EUROCONTROL on how to distribute the over-flight revenues, both those already collected and those which will be collected in the next year.

97. In December 1998, the BiH DCA, encouraged by my Office and SFOR, accepted an ICAO project to help improve its organisation, management, and ability to fulfil its obligations with regard to international civil aviation. This is funded by the European Commission to the tune of US$1.2million. The project includes the one year secondment to BiH of a Civil Aviation Adviser/Project Co-ordinator; assistance in specific civil aviation disciplines primarily related to safety; the review and update of the Civil Aviation Master Plan; and a comprehensive proposal for the organisation of common country-wide Air Traffic Control Services in BiH.

98. On 31 December 1998, the BiH DCA let expire the tender validity for the Emergency Transport Reconstruction Project - Air Navigation Component (BP12). Cancellation of the tender means cancellation of the corresponding loan from the European Bank for Reconstruction and Development(EBRD), worth some US$3.2 million.

99. At Sarajevo Airport, overnight parking permission was granted to Air Bosna, Air Adria (Slovenia), and Croatia Airlines from October 1998. By the end of the year, 10 airlines had scheduled air services operating in and out of Sarajevo. Traffic, passenger, and air cargo services are increasing at a rate which, if sustained, will mean that passenger numbers are likely to reach pre-war levels during the course of 1999.

100. The Tuzla Civil Airport was officially opened on 10 October 1998. The airport is only capable of limited operations for the time being.

101. In October 1998, a Letter of Exception granting overnight parking facilities at Banja Luka airport was issued by SFOR. This enabled SATAIR, the first airline of Republika Srpska, to start planning scheduled services, initially to Belgrade and Duesseldorf.

102. By the end of 1998, Croatian Airlines and Tyrolean Airways were running scheduled air services to and from Mostar airport.

103. Military Matters: As part of our efforts to improve the professionalism of the Entity Armed Forces, and to reduce the involvement of the military in the political process, the then Commander of SFOR, General Shinseki and I issued a letter to the parties on 21 October 1998, instructing them that no general officer may be appointed, promoted or removed without the approval of the Commander of SFOR. The letter did not state, as some press reports have claimed, that COMSFOR may appoint or promote general officers himself against the will of the parties, although he has the right to remove them. This right was invoked by the new Commander of SFOR, General Meigs, in order to remove General Sopta for deploying HVO troops to intimidate voters in Herzegovina in the September 1998 elections.

104. Demining: Progress continues to be made in the sphere of demining in Bosnia and Herzegovina, most notably with regard to the Slovenian Trust Fund. The MOU between the Slovenian Trust Fund and the Council of Ministers of Bosnia and Herzegovina, still awaiting signature at the time of the last report, has now been signed. This sets out the arrangements for the funding of demining for the future, via the Trust Fund. With several contributions already made, momentum will increase and the Trust Fund should become the major source of income for demining and victim assistance in the years ahead. Donors are to be encouraged to contribute money through the Trust Fund, in order to draw maximum benefit from the "double your money" mechanism sponsored by the US Government.

105. The PIC Steering Board finally clarified its intentions with regard to the manufacture, storage and use of land mines by the Entity Armed Forces. According to the Ottawa Treaty, which comes in to force in March 1999, and to which Bosnia and Herzegovina is a signatory, only anti-tank mines may be retained. Plans are being made to regulate the storage of such mines, possibly as a State, rather than Entity, asset. Both Entities report that they no longer manufacture mines of any sort. Plans are also being made to destroy any excess stocks of anti-tank mines and all anti-personnel mines.

106. The total area surveyed and cleared of mines in 1998 by 1 January 1999 was 4.4 million sq.m. Although the final figures may still change, this represents a reduction from that of 1997, owing to a tightening of the rules on certification of cleared areas. Sadly, 3 people were killed in October 1998, while conducting demining. The underlying trend, however, is that demining incidents are decreasing. In November and December, there were no recorded mine incidents. In addition, Demining Action Plans for 1999 have been published by the BH and Entity Mine Action Centres (MACs). The BH MAC has employed a PR planner to establish a PR strategy to encourage donors.

Appendix

DECLARATION OF THE PEACE IMPLEMENTATION COUNCIL, MADRID, 16 DECEMBER 1998

1. We, the members of the Peace Implementation Council met in Madrid on 15/16 December, where we reviewed progress in implementing the Peace Agreement in Bosnia and Herzegovina. We identified what still needed to be done to make the peace self-sustaining, and agreed on a work programme to achieve this. We approved the following Declaration, and an accompanying detailed operational Annex.

2. We note with satisfaction that Bosnia and Herzegovina has taken great strides forward in the last year. The basic institutions of the State, both political and economic, have been established. Key laws, including on foreign investment, privatisation and property, are now in place. Freedom of movement across the country has substantially improved. Fundamental reform of the media is well underway, and is helping to create a more democratic society. Elections have demonstrated a trend towards growing pluralism and tolerance.

3. This success is encouraging. A lasting peace within Bosnia and Herzegovina is starting to take root. We re-affirm that the Peace Agreement is the basis of freedom and democracy in Bosnia and Herzegovina and urge its people to join hands with us in implementing it in full. We remain determined to build a self-sustaining peace in Bosnia and Herzegovina together on the basis of the Peace Agreement.

4. But there is still much work to be done. Bosnia and Herzegovina's structure remains fragile. Without the scaffolding of international support, it would collapse. In order to create a self-sustaining state of BiH, action is needed in particular on: inter-ethnic tolerance and reconciliation; the development of effective common institutions with powers clearly delineated from those of the Entities; and an open and pluralistic political life. The growth of organised crime also represents a serious threat to BiH, and is completely incompatible with BiH's integration into Europe.

5. Following the end of the 'consolidation period', the next two years will be vital in strengthening the peace process and building democratic and market-oriented institutions, with the authorities in BiH increasingly assuming greater responsibility for the functions now undertaken or co-ordinated by the international community. We recognise the continued need for an international presence in Bosnia and Herzegovina - both civil and military - to help build the peace. We express our gratitude to the men and women of SFOR for their service in the cause of peace. SFOR's presence continues to remain essential - both to keep the peace and to provide the secure environment needed for civilian implementation. The Council also re-confirms its determination to apply conditionality to international reconstruction assistance, both by applying positive incentives and excluding non-compliant actors.

6. We say to everyone in Bosnia and Herzegovina: yours is now one of the most assisted countries in the world. International assistance is at its height. It will inevitably begin to reduce in the near future. Bosnia and Herzegovina must use the time that remains to prepare for life without total reliance on foreign aid, and to face up to the challenge of transforming the economy to generate jobs and a better standard of living. This means abandoning the statist economic attitudes of the past, pressing ahead with privatisation and creating an environment which encourages enterprise and allows the economy to flourish, and in which the rule of law is respected. This also requires a greater degree of commitment and co-operation and a more responsible attitude from the authorities of BiH.

7. We reaffirm our conviction that those indicted for war crimes must be brought to justice. We welcome the transfer of indictees to The Hague, and urge all authorities in Bosnia and Herzegovina and other relevant countries to co-operate fully with the ICTY.

8. We call on Croatia and the FRY to implement in full their commitments under the Peace Agreement and to fully respect BiH's independence and sovereignty.

9. Bosnia and Herzegovina must become a modern democratic country, where all citizens are equal before the law, destined to be an integral member of the European family. It must also be a country in which historical, cultural, linguistic and religious traditions are valued and respected, where diversity is a source of strength not division.

10. During the next crucial period we will continue to encourage the return of refugees and displaced persons by fostering a political, economic and security environment conducive to returns; strengthen Bosnia and Herzegovina internally and externally; and support stronger ties between Bosnia and Herzegovina and European institutions.

11. We agreed to press ahead with refugee and displaced person returns. We recall the too long denied right of refugees and displaced persons freely to return to their homes of origin and to have restored to them property of which they were deprived in war. We remain gravely concerned about the frequency of violent incidents in parts of Bosnia and Herzegovina, related to refugee return and to general criminality, and call on all concerned to act in accordance with the law and the Peace Agreement. We call for a re-doubling of efforts to create the conditions for a large number of returns in 1999. In particular, we:

- recall the unfulfilled obligation of the Parties under Annex 7 of the Peace Agreement to co-operate with UNHCR and to create suitable conditions for return;
- insist that the parties establish the conditions necessary for an effective returns process;
- note that many tens of thousands of Bosnians have so far expressed a wish to return home immediately to minority areas, and endorse the Reconstruction and Return Task Force (RRTF) action plan for 1999, which sets out an intensive programme to address the three key issues of space, security and sustainability and includes specific sector plans such as a substantial information campaign;
- undertake to provide the appropriate funding, commitment and resources needed for that purpose;
- welcome the high degree of co-ordination ensured by the plan, as well as, in particular, the intention of UNMIBH and SFOR to cooperate in its implementation to the maximum extent possible within their mandates.

12. Simultaneously, it is also necessary to create the right environment to make returns sustainable, by strengthening the country both internally and externally. A great deal of the physical infrastructure of the country has been repaired. We agree to focus on inculcating the principles that underpin a self-sustaining free market economy and which are vital to any free and democratic society - the rule of law, above all, and the institutions to uphold it.

We are determined to see the inner core of BiH strengthened by building the rule of law, reinforcing the common institutions, creating a self-sustaining market economy and accelerating democratisation.

12.1 The Rule of Law: We consider the establishment of the rule of law, in which all citizens have confidence, as a prerequisite for a lasting peace, and for a self-sustaining economy capable of attracting and retaining international and domestic investors. We resolve that a top priority for 1999 will be to build the rule of law in Bosnia and Herzegovina. We will work to achieve this through a thorough programme of judicial reform, including:

- the creation of an independent, impartial and multi-ethnic judiciary;
- the establishment of judicial institutions at the state level in accordance with the opinion of the Venice Commission, including an institution to deal with criminal offences by BiH public officials in the course of their duties;
- strengthening prosecution of organised crime, return-related violence, corruption and other serious criminality;
- faster police restructuring, including the establishment of multi-ethnic, professional police forces;
- rationalising and reinforcing the institutions for human rights protection;
- strengthening the Constitutional Court;
- better public information about the rights of citizens and legal assistance;
- developing and implementing an equitable mechanism to enforce legal rulings.

12.2 Institutions: Strengthening the institutions, especially the common institutions, is also a vital component of any effectively functioning state. The main institutions now exist at the Bosnia and Herzegovina level. But they do not yet work efficiently. Remedying this problem will be a central plank of our work in the coming year, and will go hand in hand with efforts to entrench the rule of law. It will be achieved by:

- ending 'parallel' institutions;
- immediate and decisive efforts by the Council of Ministers to improve its structures;
- the creation of a professional, apolitical civil service;
- the adoption, as soon as possible, of further laws necessary for the establishment and functioning of existing and other necessary institutions.

12.3 Self-sustaining economy: It is now essential to tackle, as a matter of urgency, the task of transforming Bosnia and Herzegovina's economy in 1999 to make it capable of surviving and prospering with reduced foreign aid. We agree a package of measures to:

- pursue stability-oriented macro-economic policies under the present stand-by agreement with the IMF;
- accelerate the establishment of a market economy;
- develop Bosnia and Herzegovina economy as one single economic space based on EU standards;
- install the legal and regulatory infrastructure necessary for a newly emerging, free market society;
- privatise, in a transparent and apolitical manner, state-owned industries, banks, as well as small businesses and public utilities;
- reform payments systems;
- establish properly functioning capital markets and banking institutions;
- fight against corruption, fraud and fiscal evasion;
- create adequate and sustainable conditions for the development of small and medium enterprises and stimulate foreign and domestic investments in the country.

12.4 Democratisation: Democracy is taking root in Bosnia and Herzegovina; but it needs to be reinforced at every level. We pledge to work together to achieve this - to give citizens real control over their own lives, with decisions that affect them taken as close to the citizen as possible. We pledge to work to create a culture of open debate in which different views and traditions are respected, from the education system to the parliament chamber. We aim to do this by:

- working with the people of BiH and their representatives to develop a new electoral law which will promote a democratic and multi-ethnic political process and make the elected officials accountable to the voter;
- increasing transparency in relations between Entities and their administrative units, including a clear delineation of their respective responsibilities;
- furthering media reform, to promote a free exchange of ideas and opinion, including by the establishment of a joint inter-Entity Annex 9 Public Broadcasting Corporation across the country which will respect the cultural identities of the constituent peoples and others;
- placing a major emphasis on education at all levels, to ensure that the children of Bosnia and Herzegovina are given the best chance of a brighter future;
- following judgements by the Constitutional Court on possible changes to the Entities' constitutions to bring them in line with the Bosnia and Herzegovina Constitution, to protect the rights of all the constituent peoples;

- promoting civil society and the growth of the voluntary sector in Bosnia and Herzegovina.

13. The outer ring - a more secure Bosnia and Herzegovina: We also intend to strengthen the 'outer ring' of the country by:

- working, in co-operation with SFOR and the OSCE, with the armed forces and Entity and State governments to maintain military stability, increase co-operation and confidence between the Entity Armed Forces, nurture stronger joint military institutions, reduce defence expenditure, increase professionalism, and remove the military from inappropriate involvement in the political process;
- taking steps together with the Presidency and the Entities towards establishing a common security policy and a State dimension for defence. As part of this, the Standing Committee on Military Matters (SCMM) is to be strengthened with respect to the Constitution;
- working and co-operating fully with the OSCE in Article II confidence-building measures and working closely with relevant security institutions and organisations;
- establishing a Bosnia and Herzegovina Border Service at the state level with the appropriate legal foundation to control the frontiers of the country, as envisaged in the Peace Agreement. This force might in due course also carry out other work, such as drug enforcement, diplomatic protection and protection of state buildings, and investigation work as a partner to Europol and Interpol;
- pressing for faster progress in establishing normal and legitimate relations without preconditions with Bosnia and Herzegovina's neighbours, with clearly demarcated borders and full respect for Bosnia and Herzegovina's territorial sovereignty;
- working with the parties to reinforce the progress made in CSBM and arms control and to conclude, as quickly as possible, a further agreement enhancing regional security and reduction of military resources, in line with Annex 1B of the Peace Agreement.

14. As well as strengthening Bosnia and Herzegovina internally and externally, we agreed to work to strengthen ties between Bosnia and Herzegovina and Europe. We all share the aspirations of the people of Bosnia and Herzegovina for the country to integrate more closely with the European family of nations and institutions. Europe is Bosnia and Herzegovina's future. We welcome the European Union's intention to develop further its relations with BiH in the political and economic fields, which will contribute to the stability of the country and the co-operation of the parties in BiH. We will also promote closer ties with Europe by working to ensure that Bosnia and Herzegovina meets the standards for Council of Europe membership in time for it to be in a position to join as soon as possible and supporting the efforts of the EU/BiH Consultative Task Force to develop BiH's administrative and legislative institutions.

15. The role of the High Representative: We re-affirm our strong support for the High Representative and his role, under the Peace Agreement, as the final authority in theatre in interpreting the civilian aspects of the Agreement, and, in particular, as the co-ordinator of the activities of the civilian organisations and agencies in Bosnia and Herzegovina. We support the High Representative's expansion of his consultation and co-ordination through the PIC Steering Board with other co-ordinating bodies in his capacity as the senior representative of the international community in BiH. We fully endorse the broad and substantial powers given to the High Representative at the Bonn Peace Implementation Council. Without the use of that authority in the last twelve months, less progress would have been achieved. We recognise the necessity to consolidate the High Representative's ability to make rapid progress, especially in the field of the economy, as well as his ability to fully enforce his decisions. In order to enable the High Representative to carry out his agreed actions, we acknowledge the need to ensure timely and adequate funding of his Office.

16. We welcome the Parties' affirmation of their commitment fully to implement the programme set out in this Declaration and Annex.*

* *Not attached to this report but available separately from the OHR*